

Central Intelligence Agency



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## DIRECTORATE OF INTELLIGENCE

22 March 1985

Japan: Skirting the Surcharge Issue [REDACTED]

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Summary

Some Japanese officials are calling for a tax on exports to narrow the country's huge trade surplus and thus forestall action by the US Congress to impose an import surcharge, but the Ministry of Finance--which has the legal authority to mandate an export tax--opposes such a move.

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The Nervous Nellies

The Japanese Government is divided over how seriously to take the surcharge "threat." Within the bureaucracy, the Ministry of International Trade and Industry (MITI), the Foreign Ministry, and the Economic Planning Agency (EPA) appear to be the most concerned that import surcharge legislation will be enacted. Although publicly keeping silent or playing down the imminence of US action, high-level officials at MITI and the

This memorandum was prepared by [REDACTED] Japan Branch, Northeast Asia Division, Office of East Asian Analysis. Information available as of 22 March 1985 was used in its preparation. Comments and questions are welcome and may be directed to the [REDACTED] Northeast Asia Division, OEA, [REDACTED]

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Foreign Ministry are trying to head off legislation by addressing key US concerns, [REDACTED] In our view, both ministries are seriously worried about the potential harm from import surcharges--in MITI's case, on Japanese industry, its constituency, while from the Foreign Ministry's perspective, on the overall bilateral relationship--and their bureaucratic stances reflect these apprehensions.

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-- An econometric projection by the EPA in 1982 suggested that a 10-percent discriminatory increase in the dollar prices of Japanese exports--roughly similar to imposition of a US surcharge--would shave Japanese GNP growth by 0.4 percentage point the first year and by 1 percentage point in each of the next three years.

-- Work done in 1983 by Japan's leading financial daily on the estimated impact of a 10-percent US import surcharge, confirms these results. The study also indicates a surcharge would push Japanese exports to the United States 20 percent below the level that otherwise would have occurred. [REDACTED]

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MITI and the Foreign Ministry hope to avert US surcharges by opening up Japanese import markets, but the EPA favors a tax on Japanese exports to ward off possible US protectionist measures. The EPA, which traditionally has only a minor say on trade policy, publicly recommended such preemptive action in mid-February. The Agency's plan calls for an export surcharge to be triggered whenever the yen depreciates beyond a certain point, most likely 240-260 yen to the dollar.

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#### Ministry of Finance: Calling the Shots...

The EPA surcharge proposal, however, is unlikely to go far soon. [REDACTED] support for the plan is not universal even within the EPA. More important, the Ministry of Finance, whose Customs and Tariffs Bureau possesses legal authority to mandate export taxes, opposes the scheme. Finance officials were "quite confident" in early March that such preemptive action was unnecessary. [REDACTED] they view Congressional attention to surcharge legislation as a tactic, orchestrated by the US executive branch, to put pressure on Japan to increase manufactured imports. [REDACTED]

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[redacted] officials also believe legislation now being considered to raise the maximum allowable surcharge does not appear credible as the President has shown no sign of using his existing authority under the 1974 Trade Act. Furthermore, Finance Ministry officials reportedly believed in early March--before the dollar began to depreciate--that Washington would be unlikely to implement a surcharge because it would exacerbate existing exchange rate problems by narrowing the US trade deficit, which would tend to strengthen the dollar. [redacted]

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Despite these objections, the Finance Ministry, we believe, may embrace the idea of an export surcharge if it senses that US action is in the offing. During the period of US-Japanese trade tension four years ago, the Ministry initially championed the export surcharge idea, although it eventually abandoned the proposal after other ministries--especially MITI--and the United States objected. [redacted]

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### ...But Not Alone

Even if the Finance Ministry becomes more positive about export surcharges, we are not convinced Japan will adopt such a measure. A decision to go forward would require agreement of the LDP's leaders as well as the key ministries. In our view, important ministries, such as MITI and Agriculture, would agree to an export surcharge that would harm their constituencies only under extreme duress. If--as we suspect--the Finance Ministry would support a surcharge only if US action was imminent, we doubt that Tokyo could build a consensus and adopt a surcharge before the United States took its own steps to levy a duty on Japanese imports. [redacted]

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<sup>1</sup> A study done two years ago in Japan suggests, however, that such benefits would be temporary and that by depressing economic growth and exporters' profitability, surcharges would reduce tax revenues over the longer run. [redacted]

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